

**NORA SPRINGS-ROCK FALLS
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September, 2006 Election)

Gary Dockum	President	2007
Nancy Lund	Vice President	2008
Brad Shanks		2006
Lori Treloar		2006
Dave Luett		2008

(After September, 2006 Election)

Gary Dockum	President	2007
Nancy Lund	Vice President	2008
Brad Shanks		2009
Lori Treloar		2009
Dave Luett		2008

School Officials

Todd Lettow	Superintendent
Janice Schmitt	District Secretary/ Treasurer

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of
Nora Springs-Rock Falls Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Nora Springs-Rock Falls Community School District, Nora Springs, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

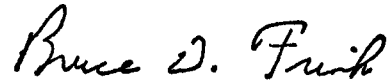
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Nora Springs-Rock Falls Community School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 25, 2008 on our consideration of Nora Springs-Rock Falls Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Nora Springs-Rock Falls Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Bruce D. Frink".

BRUCE D. FRINK
Certified Public Accountant

March 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Nora Springs-Rock Falls Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,501,444 in fiscal year 2006 to \$3,537,042 in fiscal year 2007, while General Fund expenditures increased from \$3,464,634 in fiscal year 2006 to \$3,714,324 in fiscal year 2007. The District's General Fund balance decreased from \$383,157 in fiscal year 2006 to \$206,473 in fiscal year 2007, a 54% decrease.
- The District received \$42,885 in a federal Small Rural Schools Achievement Grant as part of the Rural Education Achievement Program.
- The District's Certified Enrollment increased from 412.0 students in September 2005 to 425.0 students in September 2006.
- The amount of local option sales tax collected increased from \$263,269 in fiscal year 2006 to \$271,009 in fiscal year 2007.
- Expenses increased eight percent from FY2006 to FY2007. 4% allowable budget increases tend to be inadequate to maintain current educational programs.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Nora Springs-Rock Falls Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Nora Springs-Rock Falls Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Nora Springs-Rock Falls Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

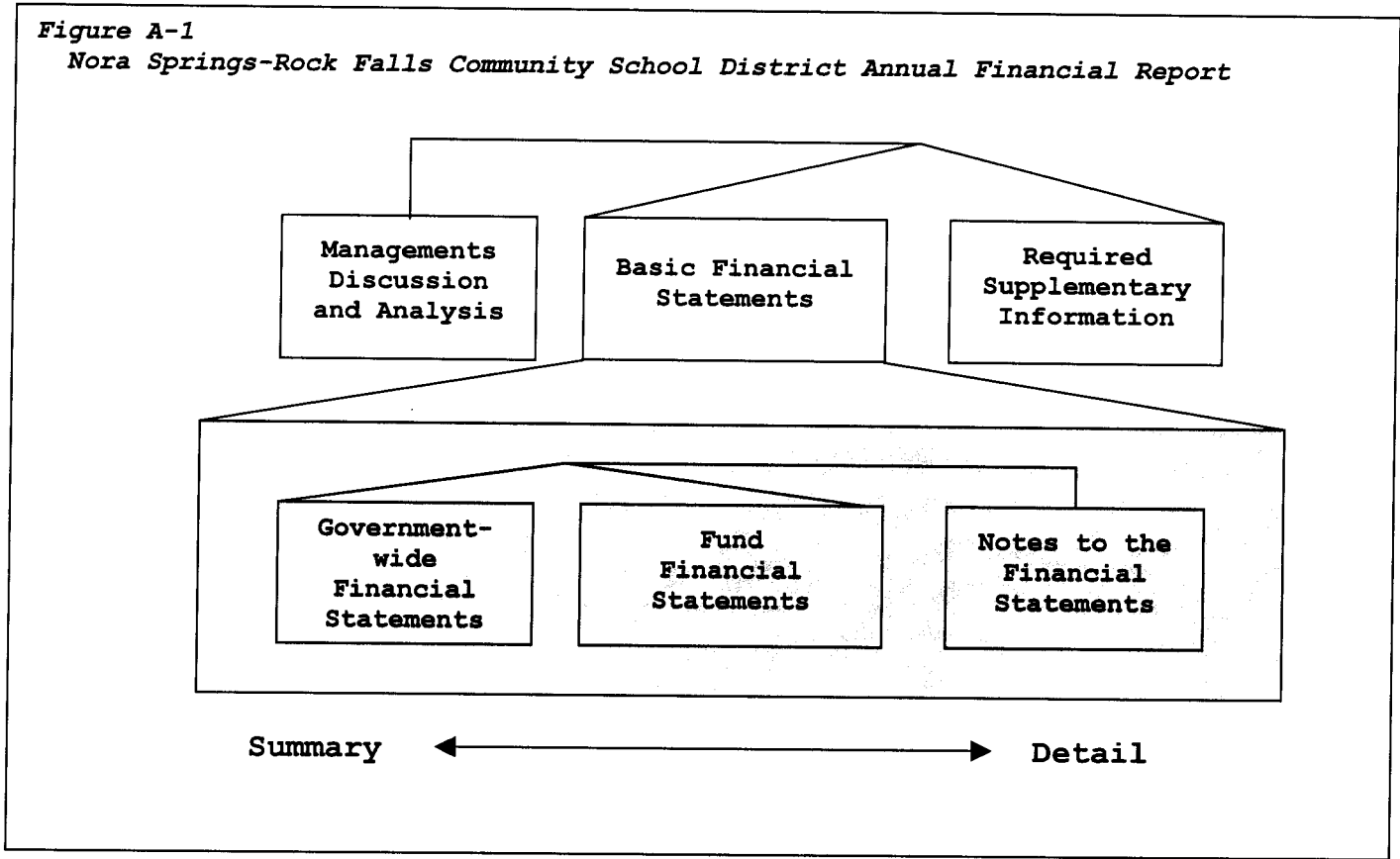


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Capital Projects and the Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and Child Care Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and statement cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trusts.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	
Current assets	2,365	2,313	27	23	2,392	2,336	2.40%
Capital assets	<u>2,179</u>	<u>2,133</u>	<u>1</u>	<u>1</u>	<u>2,180</u>	<u>2,134</u>	<u>2.16%</u>
Total assets	<u>4,544</u>	<u>4,446</u>	<u>28</u>	<u>24</u>	<u>4,572</u>	<u>4,470</u>	<u>2.28%</u>
Current liabilities	1,603	1,447	-	1	1,603	1,448	10.70%
Non-current liabilities	<u>622</u>	<u>732</u>	<u>-</u>	<u>-</u>	<u>622</u>	<u>732</u>	<u>-15.03%</u>
Total liabilities	<u>2,225</u>	<u>2,179</u>	<u>-</u>	<u>1</u>	<u>2,225</u>	<u>2,180</u>	<u>2.06%</u>
Net Assets							
Invested in capital assets, net of related debt	1,669	1,533	1	1	1,670	1,534	8.87%
Restricted	458	400	-	-	458	400	14.50%
Unrestricted	<u>192</u>	<u>334</u>	<u>27</u>	<u>22</u>	<u>219</u>	<u>356</u>	<u>-38.48%</u>
Total net assets	<u>2,319</u>	<u>2,267</u>	<u>28</u>	<u>23</u>	<u>2,347</u>	<u>2,290</u>	<u>2.49%</u>

Capital assets increased 9% as new purchases exceeded depreciation expenses. Restricted assets grew by 15% primarily due to the increase in the Capital Projects Fund. Unrestricted assets decreased slightly but the District's solvency ratio dropped to 6%. Solvency ratio is arrived at by dividing the ending General Fund balance by General Fund revenues. It is used as an indicator of the District's ability to financial carry on the District's programs. Different sources recommend solvency ratios of 5-15%, thus the District lies at the lower end of that range.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Change in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	316	349	122	132	438	481	-8.94%
Operating grants, contributions and restricted interest	637	575	78	70	715	645	10.85%
General revenues:							
Property tax	1,462	1,413	-	-	1,462	1,413	3.47%
Local option sales tax	271	263	-	-	271	263	3.04%
Unrestricted state grants	1,555	1,533	-	-	1,555	1,533	1.44%
Unrestricted investment earnings	22	16	-	-	22	16	37.50%
Other	3	18	-	-	3	18	-83.33%
Total revenues	<u>4,266</u>	<u>4,167</u>	<u>200</u>	<u>202</u>	<u>4,466</u>	<u>4,369</u>	<u>2.22%</u>
Program expenses:							
Governmental activities:							
Instruction	2,608	2,645	-	-	2,608	2,645	-1.40%
Support Services	1,165	1,001	-	-	1,165	1,001	16.38%
Non-instructional programs	-	-	195	178	195	178	9.55%
Other expenses	442	469	-	-	442	469	-5.76%
Total expenses	<u>4,215</u>	<u>4,115</u>	<u>195</u>	<u>178</u>	<u>4,410</u>	<u>4,293</u>	<u>2.73%</u>
Change in net assets	<u>51</u>	<u>52</u>	<u>5</u>	<u>24</u>	<u>56</u>	<u>76</u>	<u>-26.32%</u>

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,266,561 and expenses were \$4,215,144.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services		Net Change	Net Cost of Services		Net Change
	2007	2006	2006-07	2007	2006	2006-07
	\$	\$	%	\$	\$	%
Instruction	2,608	2,645	-1.40%	1,837	1,861	-1.29%
Support Services	1,165	1,001	16.38%	1,122	993	12.99%
Other expenses	<u>442</u>	<u>469</u>	<u>-5.76%</u>	<u>304</u>	<u>337</u>	<u>-9.79%</u>
Totals	<u>4,215</u>	<u>4,115</u>	<u>2.43%</u>	<u>3,263</u>	<u>3,191</u>	<u>2.26%</u>

- The cost financed by users of the District's programs was \$315,891, a decrease of 9% from 2006.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$358,314, a twenty-one percent decrease.
- The net cost of governmental activities was financed with \$1,461,790 in property tax (4% increase), \$1,555,310 in state foundation aid (2% increase) and \$22,622 in interest income (46% increase).

INDIVIDUAL FUND ANALYSIS

The Nora Springs-Rock Falls Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$2,318,644, a 3 percent increase over last year's ending fund balance of \$2,267,227.

Governmental Fund Highlights

Several factors contributed to the increase of the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- The General Fund balance decreased by over \$176,000 due to inadequate allowable growth.
- Funding from Local Option Sales Tax accounted for over \$270,000 of additional funds during fiscal Year 2007. Expenses from this fund were primarily for remodeling projects. The increase in the Capital Projects Fund accounted for the majority of the total increase in governmental fund balances.

Proprietary Fund Highlights

Revenues for the District's School Nutrition Fund were \$173,977 and expenses were \$173,820. The revenues include charges for services, contributions, and federal and state reimbursements. A Child Care program was started during Fiscal Year 2003. It is hoped to be an additional attraction to showcase the District. Revenues for the Day Care program were aided by a federal Head Start grant that allowed the program to end the year with a positive balance.

School Nutrition Fund net assets held steady. The Child Care Fund ended the year with a positive balance.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District has invested more than \$2.1 million, net of accumulated depreciation, by the end of fiscal year 2007 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. Total depreciation expenses for the year exceeded \$91,000.

Long-Term Debt

The District had total outstanding bonded indebtedness on June 30, 2007, of \$510,000. The principal and interest on the bonds will be paid in full by June 1, 2012. The District makes principal and interest payments annually on these bonds using property tax dollars obtained through a debt service levy specifically for these bonds.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The voters of all three counties have approved the School Infrastructure Local Option sales tax, which will provide funds for property tax reduction and school infrastructure projects affecting the Physical Plant and Equipment Levy Fund, Capital Projects, and Debt Service Funds of the District. This will allow improvement of facilities and equipment without raising property taxes.
- To offset the impact of the trend toward declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10-year period. The District will have to continue to carefully monitor its spending in order to maintain adequate funding and programs.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.
- Sharing with the North Central Community School District should allow our students better educational opportunities in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Tom Fey, Superintendent, Nora Springs-Rock Falls Community School District, 509 N Iowa, Nora Springs, IA 50458.

Basic Financial Statements

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	813,529	23,863	837,392
Receivables:			
Property tax:			
Current year	25,357	-	25,357
Succeeding year	1,489,383	-	1,489,383
Due from other governments	36,844	-	36,844
Inventories	-	3,494	3,494
Capital assets, net of accumulated depreciation (note 3)	2,178,617	934	2,179,551
Total assets	<u>4,543,730</u>	<u>28,291</u>	<u>4,572,021</u>
Liabilities:			
Accounts payable	102,207	-	102,207
Accrued salary and benefits	9,683	-	9,683
Accrued interest payable	2,315	-	2,315
Deferred revenue:			
Succeeding year property tax	1,489,383	-	1,489,383
Long term liabilities:			
Portion due within one year:			
Early retirement	23,982	-	23,982
Bonds payable	90,000	-	90,000
Portion due after one year:			
Early retirement	87,516	-	87,516
Bonds payable	420,000	-	420,000
Total liabilities	<u>2,225,086</u>	<u>-</u>	<u>2,225,086</u>
Net assets:			
Invested in capital assets, net of related debt	1,668,617	934	1,669,551
Restricted for:			
Physical plant and equipment levy	68,215	-	68,215
Debt service	12,449	-	12,449
Capital projects	377,266	-	377,266
Unrestricted	192,097	27,357	219,454
Total net assets	<u>2,318,644</u>	<u>28,291</u>	<u>2,346,935</u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants, Contributions and Restricted Interest			Business type Activities		
	Charges for Service			Governmental Activities		Total
Expenses						
\$	\$	\$	\$	\$	\$	\$
2,608,269	315,651	456,075	(1,836,543)	-	-	(1,836,543)
100,058	-	-	(100,058)	-	-	(100,058)
106,291	-	-	(106,291)	-	-	(106,291)
420,197	-	-	(420,197)	-	-	(420,197)
326,684	-	42,238	(284,446)	-	-	(284,446)
211,635	240	-	(211,395)	-	-	(211,395)
1,164,865	240	42,238	(1,122,387)	-	-	(1,122,387)
198,202	-	7,881	(190,321)	-	-	(190,321)
32,107	-	896	(31,211)	-	-	(31,211)
650	-	-	(650)	-	-	(650)
129,491	-	129,491	-	-	-	-
81,560	-	-	(81,560)	-	-	(81,560)
442,010	-	138,268	(303,742)	-	-	(303,742)
4,215,144	315,891	636,581	(3,262,672)	-	-	(3,262,672)
Total governmental activities						

Functions/Programs

Governmental activities:

Instruction:

Support services:

Student services

Instructional staff services

Administration services

Operation and maintenance of plant services

Transportation services

Other expenditures:

Facilities acquisition and construction

Long-term debt interest

Long-term debt services

AEA flowthrough

Depreciation (unallocated) *

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business type Activities
	\$	\$	\$	\$	\$
Business type activities:					
Non-instructional programs					
Nutrition services	173,820	104,582	69,395	-	157
Community education	21,518	17,466	8,858	-	4,806
Total	4,410,482	437,939	714,834	(3,262,672)	4,963
					(3,257,709)
General revenues:					
Property tax levied for:					
General purposes				1,169,754	-
Management fund				77,105	-
Debt service				123,745	-
Capital outlay				91,186	-
Local option sales taxes				271,009	-
Unrestricted state grants				1,555,310	-
Unrestricted investment earnings				22,622	-
Other				3,358	-
Total general revenue				3,314,089	-
Change in net assets				51,417	4,963
Net assets beginning of year				2,267,227	23,328
Net assets end of year				2,318,644	28,291
					2,346,935

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	<u>General</u>	<u>Debt</u> <u>Service</u>	<u>Capital</u> <u>Projects</u>	<u>Nonmajor</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	227,672	10,301	410,825	164,731	813,529
Receivables:					
Property tax:					
Current year	20,288	2,148	-	2,921	25,357
Succeeding year	1,226,493	118,175	-	144,715	1,489,383
Due from other governments	-	-	36,844	-	36,844
Total assets	<u>1,474,453</u>	<u>130,624</u>	<u>447,669</u>	<u>312,367</u>	<u>2,365,113</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	31,804	-	70,403	-	102,207
Accrued payroll	9,683	-	-	-	9,683
Deferred revenue:					
Succeeding year property tax	<u>1,226,493</u>	<u>118,175</u>	<u>-</u>	<u>144,715</u>	<u>1,489,383</u>
Total liabilities	<u>1,267,980</u>	<u>118,175</u>	<u>70,403</u>	<u>144,715</u>	<u>1,601,273</u>
Fund balances:					
Reserved for debt service	-	12,449	-	-	12,449
Reserved for capital projects	-	-	377,266	-	377,266
Unreserved	<u>206,473</u>	<u>-</u>	<u>-</u>	<u>167,652</u>	<u>374,125</u>
Total fund balances	<u>206,473</u>	<u>12,449</u>	<u>377,266</u>	<u>167,652</u>	<u>763,840</u>
Total liabilities and fund balances	<u>1,474,453</u>	<u>130,624</u>	<u>447,669</u>	<u>312,367</u>	<u>2,365,113</u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2007

Total fund balances of governmental funds (Exhibit C)	\$ 763,840
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,178,617
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(2,315)
Long-term liabilities, including bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(621,498)</u>
Net assets of governmental activities (Exhibit A)	<u>\$ 2,318,644</u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2007

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,169,754	123,745	271,009	168,291	1,732,799
Tuition	306,411	-	-	-	306,411
Other	42,952	850	7,881	131,955	183,638
State sources	1,902,174	46	-	144	1,902,364
Federal sources	115,751	-	-	25,000	140,751
Total revenues	<u>3,537,042</u>	<u>124,641</u>	<u>278,890</u>	<u>325,390</u>	<u>4,265,963</u>
Expenditures:					
Instruction:	<u>2,519,988</u>	<u>-</u>	<u>-</u>	<u>108,981</u>	<u>2,628,969</u>
Support services:					
Student services	100,058	-	-	-	100,058
Instructional staff services	90,161	-	-	16,130	106,291
Administration services	398,870	-	-	21,327	420,197
Operation and maintenance of plant services	279,385	-	-	47,299	326,684
Transportation services	<u>196,371</u>	<u>-</u>	<u>73,988</u>	<u>38,450</u>	<u>308,809</u>
	<u>1,064,845</u>	<u>-</u>	<u>73,988</u>	<u>123,206</u>	<u>1,262,039</u>
Other expenditures:					
Facilities acquisition and construction	-	-	202,821	25,000	227,821
Long-term debt:					
Principal	-	90,000	-	-	90,000
Interest	-	32,500	-	-	32,500
Services		650	-	-	650
AEA flowthrough	<u>129,491</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,491</u>
	<u>129,491</u>	<u>123,150</u>	<u>202,821</u>	<u>25,000</u>	<u>480,462</u>
Total expenditures	<u>3,714,324</u>	<u>123,150</u>	<u>276,809</u>	<u>257,187</u>	<u>4,371,470</u>
Excess (deficiency) of revenues over (under) expenditures	(177,282)	1,491	2,081	68,203	(105,507)
Other financing sources (uses):					
Sale of equipment and materials	<u>598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>598</u>
Net changes in fund balance	(176,684)	1,491	2,081	68,203	(104,909)
Fund balances beginning of year	<u>383,157</u>	<u>10,958</u>	<u>375,185</u>	<u>99,449</u>	<u>868,749</u>
Fund balances end of year	<u>206,473</u>	<u>12,449</u>	<u>377,266</u>	<u>167,652</u>	<u>763,840</u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2007

Net change in fund balances - total governmental funds (Exhibit E) \$ (104,909)

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	136,265	
Depreciation expense	<u>(91,032)</u>	45,233

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceed repayments, as follows:

Issued (early retirement benefits)	-	
Repayments	<u>110,700</u>	110,700

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

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Change in net assets of governmental activities (Exhibit B) \$ 51,417

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets
Proprietary Funds

Year ended June 30, 2007

	School Nutrition	Child Care	Total
	\$	\$	
Assets			
Cash and pooled investments	12,363	11,500	23,863
Inventories	3,494	-	3,494
Capital assets, net of accumulated depreciation	934	-	934
Total assets	<u>16,791</u>	<u>11,500</u>	<u>28,291</u>
Net assets			
Invested in capital assets, net of related debt	934	-	934
Unrestricted	<u>15,857</u>	<u>11,500</u>	<u>27,357</u>
Total net assets	<u><u>16,791</u></u>	<u><u>11,500</u></u>	<u><u>28,291</u></u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2007

	School Nutrition	Child Care	Total
	\$		
Operating revenue:			
Local sources:			
Charges for services	104,582	17,466	122,048
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	59,204	-	59,204
Benefits	12,330	-	12,330
Supplies	102,090	-	102,090
Depreciation	196	-	196
	173,820	-	173,820
Other enterprise operations:			
Salaries	-	19,178	19,178
Benefits	-	2,340	2,340
	-	21,518	21,518
Total operating expenses	173,820	21,518	195,338
Operating income (loss)	(69,238)	(4,052)	(73,290)
Non-operating revenues:			
Interest on investments	693	141	834
State sources	2,105	-	2,105
Federal sources	66,597	8,717	75,314
	69,395	8,858	78,253
Change in net assets	157	4,806	4,963
Net assets beginning of year	16,634	6,694	23,328
Net assets end of year	16,791	11,500	28,291

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2007

	School Nutrition	Child Care	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	104,582	17,466	122,048
Cash payments to employees for services	(71,534)	(21,767)	(93,301)
Cash payments to suppliers for goods or services	(92,699)	-	(92,699)
Net cash provided by (used in) operating activities	(59,651)	(4,301)	(63,952)
Cash flows from non-capital financing activities:			
State grants received	2,105	-	2,105
Federal grants received	55,575	8,717	64,292
Net cash provided by non-capital financing activities	57,680	8,717	66,397
Cash flows from investing activities:			
Interest on investments	693	141	834
Net increase (decrease) in cash and cash equivalents	(1,278)	4,557	3,279
Cash and cash equivalents beginning of year	13,641	6,943	20,584
Cash and cash equivalents end of year	12,363	11,500	23,863
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	(69,238)	(4,052)	(73,290)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	196	-	196
Commodities used	11,022	-	11,022
(Increase) in inventory	(1,631)	-	(1,631)
(Decrease) in accrued payroll and benefits	-	(249)	(249)
	(59,651)	(4,301)	(63,952)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:			
Current assets:			
Cash	12,363	11,500	23,863
Total	12,363	11,500	23,863

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received federal commodities valued at \$11,022.

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2007

	Private Purpose Trusts <u>Scholarships</u>
	\$
Additions:	
Local sources:	
Miscellaneous	<u>2,900</u>
Total additions	<u>2,900</u>
Deductions:	
Support services:	
Scholarships	<u>2,500</u>
Total deductions	<u>2,500</u>
Change in net assets	400
Net assets beginning of year	<u>-</u>
Net assets end of year	<u><u>400</u></u>

See notes to financial statements.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

Nora Springs-Rock Falls Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Nora Springs and Rock Falls, Iowa, and agricultural area in Cerro Gordo, Mitchell and Floyd Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Nora Springs-Rock Falls Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Nora Springs-Rock Falls Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Floyd and Cerro Gordo Counties Assessor Conference Boards.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's major proprietary funds are the Enterprise, School Nutrition Fund and the Child Care Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Child Care Fund is used to operate a day care program.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Fund include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2007.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures did not exceed the amounts budgeted in any of the four functions.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

Amortized Cost

Diversified Portfolio	<u>\$929,845</u>
-----------------------	------------------

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk - The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>38,075</u>	<u>-</u>	<u>-</u>	<u>38,075</u>
Capital assets being depreciated:				
Improvements other than buildings	372,904	-	-	372,904
Buildings	3,302,561	29,619	-	3,332,180
Furniture and Equipment	<u>1,445,339</u>	<u>106,646</u>	<u>-</u>	<u>1,551,985</u>
Total capital assets being depreciated	<u>5,120,804</u>	<u>136,265</u>	<u>-</u>	<u>5,257,069</u>
Less accumulated depreciation for:				
Improvements other than buildings	319,985	14,916	-	334,901
Buildings	1,357,674	66,644	-	1,424,318
Furniture and Equipment	<u>1,347,836</u>	<u>9,472</u>	<u>-</u>	<u>1,357,308</u>
Total accumulated depreciation	<u>3,025,495</u>	<u>91,032</u>	<u>-</u>	<u>3,116,527</u>
Total capital assets being depreciated, net	<u>2,095,309</u>	<u>45,233</u>	<u>-</u>	<u>2,140,542</u>
Governmental activities, capital assets, net	<u>2,133,384</u>	<u>45,233</u>	<u>-</u>	<u>2,178,617</u>
Business type activities				
Furniture and Equipment	2,359	-	-	2,359
Less accumulated depreciation	<u>1,229</u>	<u>196</u>	<u>-</u>	<u>1,425</u>
Business type activities capital assets, net	<u>1,130</u>	<u>(196)</u>	<u>-</u>	<u>934</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Student transportation				9,472
Unallocated				<u>81,560</u>
				<u>91,032</u>
Business type activities:				
Food service operations				<u>196</u>

(4) Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rate %</u>	<u>Principal \$</u>	<u>Interest \$</u>	<u>Total \$</u>
2008	5.30	90,000	27,775	117,775
2009	5.40	95,000	23,005	118,005
2010	5.50	100,000	17,875	117,875
2011	5.50	110,000	12,375	122,375
2012	5.50	<u>115,000</u>	<u>6,325</u>	<u>121,325</u>
Total		<u>510,000</u>	<u>87,355</u>	<u>597,355</u>

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	<u>General Obligation Bonds</u>	<u>Early Retirement</u>	<u>Total</u>
Balance beginning of year	\$600,000	132,198	732,198
Additions	-	-	-
Reductions	<u>90,000</u>	<u>20,700</u>	<u>110,700</u>
Balance end of year	<u>\$510,000</u>	<u>111,498</u>	<u>621,498</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll, for the years ending June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$133,360, \$126,591, and \$133,315 respectively, equal to the required contributions for each year.

(7) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$129,491 for year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least 55 years but not more than 63 years of age and must have completed at least 15 years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee consists of three parts. One, 100% of the difference between their current Salary Schedule A and the salary for B.A. step 3. Eligible support staff and administrators will receive 30% of their current contract rate. Two, \$100 for each year of service to the District over 15 years. Three, A wellness incentive of 10% of Item One if the employee has accumulated the maximum number of sick leave days at time of early retirement. The District paid \$20,700 in early retirement benefits during the year ended June 30, 2007.

(9) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Sharing Program

The District entered into a two-way sharing agreement with the North Central Community School District to share grades 5-12 beginning with the 2007-08 school year. Grades 5-8 will attend classes in Nora Springs while grades 9-12 will attend classes in Manly.

Required Supplementary Information

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts	Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final
	\$	\$	\$	\$	\$
Revenues:					
Local sources	2,222,848	122,882	2,345,730	2,254,180	91,550
State sources	1,902,364	2,105	1,904,469	1,905,837	(1,368)
Federal sources	140,751	75,314	216,065	193,000	23,065
Total revenues	<u>4,265,963</u>	<u>200,301</u>	<u>4,466,264</u>	<u>4,353,017</u>	<u>113,247</u>
Expenditures:					
Instruction	2,628,969	-	2,628,969	2,630,000	1,031
Support services	1,262,039	-	1,262,039	1,345,000	82,961
Non-instructional programs	-	195,338	195,338	216,500	21,162
Other expenditures	480,462	-	480,462	669,837	189,375
Total expenditures	<u>4,371,470</u>	<u>195,338</u>	<u>4,566,808</u>	<u>4,861,337</u>	<u>294,529</u>
Excess (deficiency) of revenues over (under) expenditures	(105,507)	4,963	(100,544)	(508,320)	407,776
Other financing sources (uses)	<u>598</u>	<u>-</u>	<u>598</u>	<u>-</u>	<u>598</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(104,909)	4,963	(99,946)	(508,320)	408,374
Balance beginning of year	<u>868,749</u>	<u>23,328</u>	<u>892,077</u>	<u>829,780</u>	<u>62,297</u>
Balance end of year	<u>763,840</u>	<u>28,291</u>	<u>792,131</u>	<u>321,460</u>	<u>470,671</u>

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

Other Supplementary Information

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	56,024	42,076	66,631	164,731
Property tax receivable:				
Current year	1,337	-	1,584	2,921
Succeeding year	50,000	-	94,715	144,715
Total assets	<u>107,361</u>	<u>42,076</u>	<u>162,930</u>	<u>312,367</u>
Liabilities and Fund Balance				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	50,000	-	94,715	144,715
Fund balance:				
Unreserved fund balance	57,361	42,076	68,215	167,652
Total liabilities and fund balance	<u>107,361</u>	<u>42,076</u>	<u>162,930</u>	<u>312,367</u>

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	77,105	-	91,186	168,291
Other	5,025	114,861	12,069	131,955
State sources	67	-	77	144
Federal sources	-	-	25,000	25,000
Total revenues	<u>82,197</u>	<u>114,861</u>	<u>128,332</u>	<u>325,390</u>
Expenditures:				
Instruction:	-	108,981	-	108,981
Support services:				
Instructional support services	-	-	16,130	16,130
Administration services	21,327	-	-	21,327
Plant operation and maintenance	47,299	-	-	47,299
Student transportation	5,792	-	32,658	38,450
Other expenditures:				
Facilities acquisition and construction	-	-	25,000	25,000
Total expenditures	<u>74,418</u>	<u>108,981</u>	<u>73,788</u>	<u>257,187</u>
Excess (deficiency) of revenues over (under) expenditures	7,779	5,880	54,544	68,203
Fund balances beginning of year	<u>49,582</u>	<u>36,196</u>	<u>13,671</u>	<u>99,449</u>
Fund balances end of year	<u><u>57,361</u></u>	<u><u>42,076</u></u>	<u><u>68,215</u></u>	<u><u>167,652</u></u>

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Athletics	88	11,625	7,771	3,942
Basketball	232	12,366	10,885	1,713
Golf	7	1,825	1,796	36
Track	774	3,906	4,620	60
Football	33	8,039	6,367	1,705
Baseball	473	3,757	3,623	607
Wrestling	776	5,173	4,689	1,260
Volleyball	1,926	728	1,082	1,572
Softball	193	3,213	2,540	866
Concession	51	9,379	7,150	2,280
Yearbook	3,798	4,400	1,694	6,504
Drama Jox	266	5	-	271
Student Council	2,186	6,055	6,073	2,168
MS Student Council	-	4,413	3,632	781
Class of 2007	2,191	64	740	1,515
Class of 2008	3,102	240	2,976	366
Class of 2009	2,524	45	75	2,494
Class of 2010	1,090	27	127	990
Class of 2011	2,928	4,710	3,849	3,789
Class of 2012	950	1,290	-	2,240
Class of 2013	-	861	-	861
Class Composite Picture	465	13	-	478
Students Jump for Heart	1,184	127	245	1,066
Drama	2,544	4,285	4,756	2,073
Vocal Fund Raising	2,113	80	2,193	-
Band Fund Raising	6,302	28,235	32,098	2,439
Grand total	<u>36,196</u>	<u>114,861</u>	<u>108,981</u>	<u>42,076</u>

See accompanying independent auditor's report.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,732,799	1,676,480	1,685,448	1,680,079
Tuition	306,411	337,957	345,797	346,221
Other	183,638	163,299	166,256	106,410
State sources	1,902,364	1,847,885	1,791,077	1,689,968
Federal sources	140,751	140,276	109,770	117,945
Total	<u>4,265,963</u>	<u>4,165,897</u>	<u>4,098,348</u>	<u>3,940,623</u>
Expenditures:				
Instruction	2,628,969	2,531,997	2,398,561	2,392,457
Support services:				
Student	100,058	112,166	117,974	100,672
Instructional staff	106,291	89,675	44,114	18,495
Administration	420,197	383,770	368,287	403,226
Operation and maintenance of plant	326,684	283,557	334,907	284,041
Transportation	308,809	195,891	149,247	136,586
Other expenditures:				
Facilities acquisition	227,821	95,714	121,346	186,859
Debt service:				
Principal	90,000	85,000	115,000	145,000
Interest and services	33,150	37,220	42,154	49,325
AEA flowthrough	129,491	125,135	124,135	125,753
Total	<u>4,371,470</u>	<u>3,940,125</u>	<u>3,815,725</u>	<u>3,842,414</u>

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

**Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of the
Nora Springs-Rock Falls Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Nora Springs-Rock Falls Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 25, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Nora Springs-Rock Falls Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Nora Springs-Rock Falls Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Nora Springs-Rock Falls Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Nora Springs-Rock Falls Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Nora Springs-Rock Falls Community School District's financial statements that is more than inconsequential will not be prevented or detected by Nora Springs-Rock Falls Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Nora Springs-Rock Falls Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item 07-I-A is a material weakness.

Compliance and Other Matters

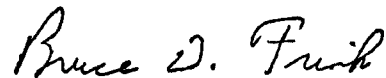
As part of obtaining reasonable assurance about whether Nora Springs-Rock Falls Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Nora Springs-Rock Falls Community School District's response to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Nora Springs-Rock Falls Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Nora Springs-Rock Falls Community School District and other parties to whom Nora Springs-Rock Falls Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Nora Springs-Rock Falls Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 25, 2008

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

07-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

- 07-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2007.
- 07-II-B Certified Budget - Expenditures for the year ended June 30, 2007, did not exceed the certified budget amounts in the any of the four functions.
- 07-II-C Questionable Disbursements - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted
- 07-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 07-II-E Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 07-II-F Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- 07-II-G Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

NORA SPRINGS-ROCK FALLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

07-II-H Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Dave Luett Board Member	Cabinets	\$2,231
Denny Mathers Transportation Director	T-shirts	\$ 745

In accordance with Chapter 279.7A of the Code of Iowa, these transactions do not appear to represent conflicts of interest since they totaled less than \$2,500 for the fiscal year.

Recommendation - We recommend that the District annually review these transactions to ensure continued compliance.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

07-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

07-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.